Efficacy of Co-operative Banks

Anju G. S[1] and J. K. Raju[2]

[1]Co-ordinator/Research Scholar, Davan Institute of Advanced Management Studies, Davangere, Karnataka, India.

[2] Professor, Institute of Management Studies, Davangere University, Davangere, Karnataka, India.

Indian banking is the lifeline of the nation and its people. Banking has helped in developing the vital sectors of the economy. A co- operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Cooperative banks are often created by person belonging to the small local or professional community or sharing a common interest. Cooperative Banking Institutions take deposit and lead money. It provides financial assistance to the people with small means to protect them from the debt trap of the money lender. Cooperative banks are organized and managed on the principal of cooperative, self- help & mutual help. To keep up in this fast changing market, traditional banks will have to adopt their digital models. Further, customers use their mobile phones and tablets to operate their bank transactions and takes hold in financial services. The cell phones are becoming vital aspect of digital strategy that banks must address.

In India, 1992 cooperative banking groups or networks have been listed.

Urban Cooperative bank

State cooperative bank

District central co-operative bank

Primary cooperative societies

(Source: www.RBI.org.)

The history of the cooperative banks goes back to the year 1904. In 1904, the cooperative credit society act was enacted to encourage cooperative movement in India. The first phase of cooperative banks development was the formation and regulation of cooperative society. The constitutional reform which leads to the passing of the Government of India Act in 1919 transferred the subject of cooperation from government of India to the provisional Governments. The Government of Bombay passed the first State Cooperative Societies act in 1925.The first paper of Urban Cooperative Banks was taken by RBI in the year1958- 59.The report published in 1961 acknowledged the Widespread and financially sound framework of Urban Cooperative Bank, emphasized the need to established Primary Urban Cooperative Bank in new centres and suggested the State Government lead active support to their development. In 1963 Varde Committee recommended that such banks should be organized at all Urban Centers with a population of 1 Lakh or more and not by a single community or Caste. A co- operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. This is a board definition and not intended as a description of the perfect co-operative. It is intentionally wide in scope, recognizing that members must have some freedom in how they organize their affairs. Hopefully, this definition will be useful in drafting, legislation, educating members and preparing text books. The basic principles of co-operatives must be:

1. Voluntary and Open Membership;

2. Democratic Member Control;

3. Member's Economic Participation;

4. Autonomy and Independence;

5. Education, Training and Information;

6. Co- Operative amongst Co- Operative: and
7. Concern for Community.

The co-operative credit institution, occupy an important position in the financial system of the economy in terms of their reach, volume of operation and the purpose they serve. They were the first over attempt at micro credit dispersion in rural, semi urban and urban areas in India and are voluntary organized in a democratic setup by people having common interest and high moral values with the aim of Thrift and "Self Help" through mutual help.

The credit needs of rural economy are met by institutional as well as non- institutional agencies. The institutional agencies are

1. Co- operative Credit Institutions

2. Commercial Banks

3. Regional Rural Banks

4. RBI/NABARD/IDBI/ICICI

5. State Government

The non– institutional agencies consists of money lenders, rich landlord, traders, commission agents, relatives etc. The co- operative credit institutions are foremost and play a unique role in the rural and urban credit supply in our country.

Literature Review:

Girdhar (2009) the co-operative banks have a history of over 100 years. The Co-operative banks arrived in India in the beginning of 20th Century as an official effort to create a new type of institution based on the principle of co-operative organization and management, suitable for problems peculiar to Indian conditions. The co-operative movement originated in the west, but the importance that such banks have assumed in India is rarely paralleled anywhere else in the world. Their role in rural financing continues to be important even today, and their business in the urban areas has also increased phenomenally in recent years, mainly due to the sharp increase in the number of primary co-operative banks. Some of the co-operative banks are quite forward looking and have developed sufficient core-competencies to challenge state and private sector bank.

Vijayalakshmi et al(2010) the researchers had attempted to study the review the functioning of Thoothukudi District Central Co-operative Bank Limited. It found that the study unit has been quite impressive in terms of deposit mobilization and credit deployment. But unable to fulfill to arrest the overdue position and strengthen the share capital. It concluded that bank financial viability and profitability is declining. Probably, the biggest challenge facing the Co-operative is the strengthen availability of quality assets.

Dirk Vater (2012) Most banks are investing heavily in apps for smart phones and digital tablets that make it easy for customers to conduct a wide range of banking activities while on the go. The challenge is global and gaining momentum as banks try to come to terms with technologies that have transformed sector after sector. Technology by itself will not deliver a competitive advantage; what banks do with it to develop a unique, personalized customer experience will matter most of all.

Uprit (2012) said that there are urban co-operative banks which have not adopted the virtual banking system. Thus, it had opened the doors for the further investigation on the virtual banking.

Saurabh (2014) Digital Banking: Promise of disruptive gains in reach, service and productivity in next five years" is being published amidst widespread optimism in the Indian economy even as some concerns regarding the health of Indian banks linger. The enormous possibilities to reduce costs, improve customer service and reduce risks

T. Kearney (2014) Most banks today want to become digital banking leaders. Most banks began their digital journey years ago and have clear digital strategies, yet even those are facing major changes. In particular, as more customers use their mobile phones and tablets to do their banking, and Omni-channel takes hold in financial services, the mobile experience is becoming a crucial aspect of digital strategy that banks must address. Secondly, to keep up in this fast-changing market, traditional banks will have to adapt their operating models. In particular, changes in IT, new products and services development, and changing expectations for time-to-market will be key factors going forward. A new spirit of banking—led by top executives—will lead the way to addressing market changes, become more agile and improving openness in day to day business. Sumit (2014) Digital Transformation is far beyond just moving from traditional banking to a digital world. It is a vital change in how banks and other financial institutions learn about, interact with and satisfy customers. An efficacious Digital Transformation begins with an understanding of digital customer behavior, preferences, choices, likes, dislikes, stated as well as unstated needs, aspirations etc. Steven (2014) To stay profitable and grow in the new digital economy, banks need to adopt a customer-centric business model, diversify online delivery of products and services channels, and begin making meaning from valuable trails of digital information.

RedHat (2016) Banks today face an onslaught of challenges, spurred by the latest technology advances and rising customer expectations, highlighting the need for IT modernization and digital innovation. The push toward IT modernization in banking is driven by other factors, as well. New regulatory requirements mandating real-time payments and the pressure to provide value-added customer experiences underscore the need to update delivery architectures and to ensure secure support of traditional and mobile browsers, as well as native and hybrid mobile technologies. To enable improved customer experiences and create more competitive infrastructures, fast application development and efficient delivery are a key part.

Challenges and Opportunities:

The challenge for banks is to understand the technologies that are reshaping and will continue to reshape the future. One of the biggest obstacles for any institution willing to change is access to technology. Private sector banks exploited master card and visa technologies successfully. Modern banking in a way is more technology-driven rather than banking services. Regulatory changes and the technology platform provides for almost free is helping the smaller ones and co-operatives reinvent themselves. The technology is an opportunity as well as experiment to the industry.

The existing core banking solutions (CBS) are designed for 'class banking' and not for 'mass banking'.

But post-demonetisation more rural people are going to come into the banking net. They will also start transacting through other modes like ATMs, mobile phones and others," B. Suresh Kamath, Managing

Director, Patterns Software Design Institute Pvt Ltd, told IANS. "The CBS has to be geared up for small-value and large-volume transactions

DEMONETISATION: The positive macro benefits of this move by the government

This move by the government is likely to have long term benefits for the economy. The move is also likely to have a habit changing impact in the Indian people and there could be increased belief of keeping cash in the banks rather than stashed at home and use formal banking channels for their spending needs.

Due to demonetisation , people deal with the difficulty of transacting in cash in the next few days, there is expected to be an increase in electronic payments – through cards, micro-ATMs, pre-paid mobile wallets..,

The leaders of co-operative banks should seriously think of updating the banking transactions through digital way, as most of them don't even provide the ATM service facility to the customers. To compete with the public and private banks, it is a rapid alert for the co-operative banks to enter into the hi-tech movement .Development finance experts say we may see a trend towards this in the coming weeks, since the government has restricted cash withdrawals from banks as well as ATMs. "Digital payments will be the positive effect of the demonetisation said VaradPande, a partner at Dalberg Global Development Advisors, a consulting firm. He said a majority of those who use cash do so because they do not have a need to switch to digital, and are stuck in a cash economy. "Over the next few months, as cash becomes less convenient to use, a lot more people may be willing to try digital payments. This calls for a switch from "physical cash to digital payment options" especially for the co-operative banks. Most of the customers are more convenient to make payment through Debit and credit card instead of going to bank for withdraw or through other means.

Limited Access At Co-Operative Banks:

Many agree that the current moment offers a reason to move to digital payments. But they also point out that problems of access and infrastructure remain. The demonetisation of high currency strengthens the case for digital payments, but there is a limited access in co-operative banks for operations, this is a high alert for them to tie up with some private banks and issue the smart cards to customers to make the operations without any disturbance. "People are likely to withdraw from ATMs if the machines are close by, but the infrastructure and access is not available in co-operative banks currently", still there is a learning curve that takes time, but I am hopeful we will get there."

Efficacy of Co-operative Banks:

The key success factors of any organization may be on the role of Leadership effectiveness to influence their various staffs to gain competitive advantage. It is an incremental component that centers the existence, survival, growth, profitability, productivity and functioning of any group or organization. Indeed, the organizations recognize that their success is highly-dependent upon the quality and effectiveness of this dimension. Chan (2010) by using appropriate leadership styles, leaders can affect employee job satisfaction, commitment, productivity and, ultimately, the organization's performance. To maintain financial competitiveness in this varied landscape, organizational leaders must embrace the leadership styles that are most effective in motivating. Holbecke (2012) organisational effectiveness often assumes that what is good for the organisation is good for employees, and vice versa. Chang and Huang (2010) Organisational effectiveness measures are concerned with understanding the unique capabilities that organisations develop to ensure that success. This includes measuring the value of organisational human resources (Jamrog & Overholt, 2004). Kakulla and Reddy (2011) identified the problems in the co-operative banking and those may be government norms, Lack of BOD knowledge, HR issues and finance issues and awareness and usage of Technology. By various review of the literature, we can learn that, measuring the effectiveness of the organisation as well as leadership style is a challenge. The effectiveness can be measured by various approaches and Ashraf and Kadir (2012) deals with the characteristics of the four models of organizational effectiveness namely the goal approach, the system resource approach, the process approach and the strategic constituency approach are reviewed. It is observed that these approaches have undertaken in various sectors like public and private banks, hotel and food store organisation. But, there is scant research in Co-operative Banks.

HISTORICAL OPINIONS ABOUT ORGANIZATIONAL EFFECTIVENESS

FREDERICK TAYLOR: "EFFECTIVENESS WAS DETERMINED BY FACTORS SUCH AS PRODUCTION MAXIMIZATION, COST MINIMALIZATION, TECHNOLOGICAL EXCELLENCE, Etc.".

HENRI FAYOL: "EFFECTIVENESS IS A FUNCTION OF CLEAR AUTHORITY AND DISCIPLINE WITHIN AN ORGANIZATION".

ELTON MAYO: "EFFECTIVENESS IS A FUNCTION OF PRODUCTIVITY RESULTING FROM EMPLOYEE SATISFACTION".

Effectiveness v/s Efficiency

Effectiveness is the level of results from the actions of employees and managers. Employees and managers who demonstrate effectiveness in the workplace help produce high-quality results. Take, for instance, an employee who works the sales floor. If he's effective, he'll make sales consistently. If he's ineffective, he'll struggle to persuade customers to make a purchase. Companies measure effectiveness often by conducting performance reviews. The effectiveness of a workforce has an enormous impact on the quality of a company's product or service, which often dictates a company's reputation and customer satisfaction.

Efficiency in the workplace is the time it takes to do something. Efficient employees and managers complete tasks in the least amount of time possible with the least amount of resources possible by utilizing certain time-saving strategies. Inefficient employees and managers take the long road. For example, suppose a manager is attempting to communicate more efficiently. He can accomplish his goal by using email rather than sending letters to each employee. Efficiency and effectiveness are mutually exclusive. A manager or employee who's efficient isn't always effective and vice versa. Efficiency increases productivity and saves both time and money.

While efficiency refers to how well something is done, effectiveness refers to how useful something is. For example, a car is a very effective form of transportation, able to move people across long distances, to specific places, but a car may not transport people efficiently because of how it uses fuel

Effective (adj.): Adequate to accomplish a purpose; producing the intended or expected result.

Efficient (adj.): Performing or functioning in the best possible manner with the least waste of time and effort.

Meaning	Effectiveness is about doing the right task, completing activities and achieving goals.	Efficiency is about doing things in an Optimal way, for example doing it the fastest or in the least expensive way. It could be the wrong thing, but it was done optimally.

Summary:

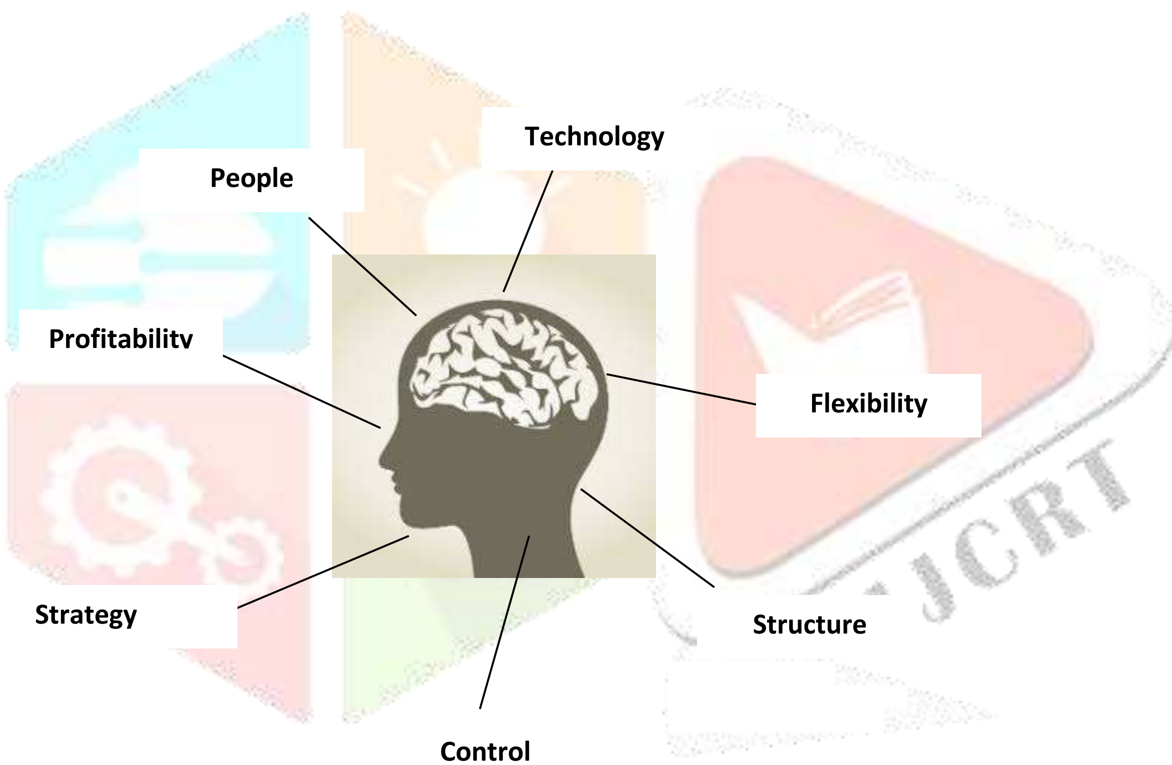
1. Efficiency means doing the things right whereas Effectiveness is about doing the right things.
2. Efficiency focuses on the process or 'means' whereas Effectiveness focuses on the end.
3. Efficiency is restricted to the present state whereas effectiveness involves thinking long term.
4. Organizations have to be both effective and efficient in order to be successful.

Organizational effectiveness

Historically, organizational effectiveness has focused on how well organizations compete, how quickly they bring products to market, their status in the community, their attractiveness to potential employees, and their profitability. In other words, organizational effectiveness considers how well an organization performs business.

Meaning: "MEETING ORGANIZATIONAL OBJECTIVES AND PRVAILING SOCIETAL EXPECTATIONS IN THE NEAR FUTURE, ADAPTING AND DEVELOPING IN THE INTERMEDIATE FUTURE AND SURVIVING IN THE DISTANT FUTURE".

Based on the literature review as well as discussion and interaction with the bank authorities the researcher had identified the following dimensions plays a significant role for the effectiveness of the co-operative banks.



Inference:

Effectiveness can enhance co-operative bank performance; increase employees job satisfaction, increase profitability, identifies the uniqueness of the bank in terms of strategy and styles adopted and reduce turnover intentions. There is a Scope for an empirical study in this area. With the consideration of above facts and dimensions, with the perspectives of literature review, it has been noted from the previous studies on the topic leadership and the Organisational effectiveness had been undertaken in different industries (Hospitals, education & so on.) Many researchers had recommended for the further research work in this area. Since, there is limited published research work on the co-operative bank sector in this topic. The present researcher makes an effort to fill the gap and had identified that there is scope for additional research and hence put forward for further study can be explored by empirical evidence on **"Efficacy of Co-operative Banks in Davangere District**".

References

1. Alamelu and Devamohan (2010), "Efficiency of Commercial Banks in India", Professional Banker,(Jan.) ICFAI University Press, Hyderabad.

2. Balister Singh; and Vishwajit (1994), "A Paper of Overdues of Loans in Agriculture", Indian Co-operative Review (April), New Delhi.

3. Bagchi (2006), "Agriculture and Rural Development are Synonymous in Reality: Suggested Role of CAs in Accelerating Process", The Chartered Accountant, Journal of Institute of Chart.

4. Bhatia, R.C. (1978), Banking Structure and Performance− A Case Paper of the Indian Banking System, An un published Ph.D. Thesis submitted to West Virginia University.

5. Carlos, Pestana Barros; Nicolas, Peypoch; and Jonathan, Williams (2005), "Productivity Changes in European Co-operative Banks", Journal of Economic Literature, 2005 Classification G-21 and D-24, IDEAS.

6. Chopra, Kiran (1987), Managing Profits, Profitability and Productivity in Public Sector Banking, ABS Publications, Jalandhar.

7. Das, Debabrata (2001), "A Paper on the Repayment Behaviour of Sample Borrowers of Arunachal Pradesh State Co-operative Apex Bank Limited", Indian Cooperative Review, Vol. XXX No.2 (Oct.), New Delhi.

8. Das, M.R. (1997), Productivity in Nationalised Banks, A Paper Presented in Bank Economists Conference, IBA- Bulletin (Oct.), Mumbai.

9. DebasishSathyaSwaroop (2003), "Prime Discriminants of Profitability in the Indian Commercial Banks", Prajnan, Vol. XXXI, No.4 (Jan.-June), NIBM, Pune.

10. IANS (2016) Demonetisation: Rise in number of transactions may hit banks' bottomlines, say experts", Updated: Nov 30, 2016, 03.46 PM IST.

11. Pratik Bhakta, (2016) "Co-operative banks attempt to stay relevant by offering faster credit disbursal and internet banking".

12. Tor Guimaraes & Bransford Brandon Empirically Testing Some Major Factors For Bank Innovation Success.

13. Tudor Rickards And Susan Moger(2006) Creative Leaders: A Decade Of Contributions From Creativity And Innovation Management Journal. Articles Published In Creativity And Innovation Management Volumes 1–9 (1991–2000).

14. Tor Guimaraes* & Bransford Brandon & Erik Ryan Guimaraes(2009) Empirically Testing Some Major Factors For Bank Innovation Success. Journal Of Performance Management.

15. Vivek Uprit (2012) Satisfaction and Effectiveness of Virtual Organization In Excess of Real Organization: A Study of Selected Commercial Banks In India. Journal of Internet Banking And Commerce, August 2012, Vol. 17, No.1 (Http://Www.Arraydev.Com/Commerce/Jibc/)